

Message Text

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14

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C O N F I D E N T I A L WARSAW 4774

E.O. 11652: GDS

TAGS: ECON, PL

SUBJECT: REFLECTIONS ON THE TIMING AND SIZE OF THE JUNE 25

PRICE INCREASES

1. SUMMARY. IN RETROSPECT, IT APPEARS THAT PRESSURE TO COMPLETE THE 1976-80 PLAN WAS THE MAJOR FACTOR INFLUENCING THE TIMING OF THE ABORTIVE JUNE 25 PRICE INCREASES. THE GOVERNMENT, WE THINK, DID NOT WANT TO ENTER THE CEMA HEADS OF GOVERNMENT CONFERENCE NOW UNDERWAY IN EAST BERLIN WITHOUT A FIVE YEAR PLAN IN HAND, AND PLAN TARGETS COULD NOT BE ESTABLISHED UNTIL WAGE AND PRICE INCREASES HAD BEEN DECIDED. THE AMOUNT OF THE PROPOSED PRICE INCREASES SEEMS TO REFLECT THE GOVERNMENT'S INTENT TO CONTINUE A POLICY OF RAPID ECONOMIC GROWTH, AND A RELUCTANCE TO SCALE DOWN THE GOALS APPROVED BY THE SEVENTH PARTY CONGRESS.
END SUMMARY.

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2. FOR SEVERAL MONTHS WE HAVE BEEN HEARING SCATTERED REPORTS FROM

POLISH PRESS AND ECONOMIC SOURCES THAT WORK ON THE 1976-80 PLAN COULD NOT BE COMPLETED UNTIL FUNDAMENTAL DECISIONS WERE TAKEN ON PRICE AND WAGE POLICY. THROUGHOUT THIS PERIOD THE GOVERNMENT REFRAINED FROM ANY PUBLIC COMMITMENT TO RELEASE THE PLAN BY A SPECIFIC DATE, PREFERRING TO LET IT BE KNOWN THAT THE DOCUMENT WOULD BE PUBLISHED TOWARD THE END OF THE SUMMER. FACED WITH THE ENENVIALE PROSPECT OF ATTENDING THE BERLIN CONFERENCE WITHOUT A FIVE YEAR PLAN AND BELIEVING THE PUBLIC REACTION TO THE PRICE PROGRAM WOULD BE MANAGEABLE, THE LEADERSHIP APPARENTLY DECIDED THAT ACTION ON PRICES COULD NOT BE FURTHER DELAYED. COMING TO THE PRESENT BERLIN CONFERENCE WITHOUT A PLAN WOULD HAVE NECESSITATED EXPLANATIONS THAT COULD ONLY AMOUNT TO AN ADMISSION OF WEAKNESS IN MANAGING THE POLISH ECONOMY, A PARTICULARLY PAINFUL EXPERIENCE FOR A REGIME THAT HAS ACTIVELY SOUGHT A LEADING ROLE IN EASTERN EUROPE.

3. THE SUPRISING MAGNITUDE OF THE INCREASES APPEARS TO HAVE BEEN HEAVILY INFLUENCED BY A CONTINUING COMMITMENT TO RAPID ECONOMIC GROWTH. RETREAT FROM THE GUIDELINES APPROVED BY THE SEVENTH CONGRESS WAS EVIDENTLY UNACCEPTABLE, AND IT WAS APPARENTLY DECIDED THAT THESE GOALS WERE TENABLE ONLY IF THE PRICE AND WAGE PROGRAM PROPOSED JUNE 25 WAS ADOPTED.

4. BOTH GIEREK AND JAROSZEWICZ HAVE PUBLICLY CONFIRMED IN RECENT DAYS THAT PRICE INCREASES WILL COME. THE SHAPE OF THE NEW PROGRAM AND THE TIMING OF ITS INTRODUCTION HAVE NOT BEEN REVEALED, AND ARE PROBABLY NOT DECIDED.

5. WITH THE PASSAGE OF TIME, THE PROBLEMS THAT THE JUNE 25 PROPOSALS WERE INTENDED TO RESOLVE GROW MORE ACUTE. CONSUMER DEMAND FOR THE FOOD ARTICLES WHOSE PRICES WOULD HAVE INCREASED IS SURE TO REMAIN HIGH, AND MOUNTING UNCERTAINTY ABOUT THE FATE OF THIS YEAR'S CROPS IS DARKENING THE LONGER TERM OUTLOOK OF IMPROVEMENT IN FOOD SUPPLIES. IF THIS YEAR'S HARVEST OF GRAIN AND ROOT CROPS (ESPECIALLY POTATOES AND SUGAR BEETS) IS SERIOUSLY AFFECTED BY THE CONTINUING LACK OF RAINFALL, THE POLES WILL PROBABLY BE FORCED TO ACCEPT A LOWER RATE OF ECONOMIC EXPANSION FOR AT LEAST THE NEXT TWO YEARS AND TO SHIFT SUBSTANTIAL RESOURCES TO THE DEVELOPMENT OF AGRICULTURE AND THE PURCHASE OF IMPORTED FOODSTUFFS AND ANIMAL FEED.

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6. USNATO 3798 POINTS TO THE UNFORTUNATE TIMING OF THE PRICE RISES, JUST ON THE EVE OF THE ECPC. RECONSTRUCTING EVENTS, IT SEEMS LIKELY THAT THE POLES ON JUNE 17 TOOK THE DECISION TO IMPLEMENT THE HIKES, UNDER THE IMPRESSION THAT THE ECPC WOULD NOT TAKE PLACE IN LATE JUNE, BUT RATHER IN THE FIRST HALF OF JULY (WARSAW'S 4088 AND 4354-NOTAL). THE ANNOUNCEMENT CONVENING THE ECPC WAS MADE ON JUNE 24, JUST BEFORE JAROSZEWICZ'S

SPEECH. BY THAT TIME, ALL THE POLES COULD DO WAS HOPE FOR THE BEST
AND ISSUE ORDERS THAT POLICE VIOLENCE WAS TO BE AVOIDED. IN
THIS SENSE, THE GIEREK REGIME FACED THE DEMONSTRATORS WITH
HANDS TIED. HAD THERE BEEN NO ECPC LOOMING AHEAD, THE REGIME
MIGHT HAVE ATTEMPTED TO RIDE OUT THE STORM, OR AT LEAST HELD OUT
LONGER THAN TWENTY HOURS BEFORE WITHDRAWING
THE INCREASES.
DAVIES

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